Manitoba

MANITOBA DEVELOPMENT CORPORATION

Annual Report

March 2003

Growing Together in the 21st Century

Manitoba Industry, Trade and Mines

103-07202/

MANITOBA DEVELOPMENT CORPORATION

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MANITOBA DEVELOPMENT CORPORATION

Financial Statements
March 31, 2003

Manitoba

MINISTER OF
INDUSTRY, TRADE AND MINES

WINNIPEG, MANITOBA, CANADA
R3C 0V8

His Honour
The Honourable Peter M. Liba, C.M.
Lieutenant Governor of Manitoba
Room 235 Legislative Building
Winnipeg MB R3C 0V8

Your Honour:

I am pleased to present the Annual Report for the Manitoba Development Corporation for the fiscal year ending March 31, 2003.

Respectfully submitted,

MaryAnn Mihychuk, P. Geo.
Minister

Manitoba

Manitoba

Manitoba Development Corporation
555-155 Carlton Street
Phone: 204-945-0141
Fax: 204-945-1193

Winnipeg Manitoba, CANADA
R3C 3H8

August 29, 2003

Honourable MaryAnn Mihychuk
Minister of Industry, Trade and Mines
Room 358 Legislative Building
Winnipeg MB R3C 0V8

Dear Minister Mihychuk:

It is our pleasure to submit the Annual Report of the Manitoba Development Corporation for the fiscal year ended March 31, 2003, as required by Section 44 of the Development Corporation Act.

Respectfully submitted,

Hugh Eliasson
Chairperson

BDO

BDO Dunwoody LLP
Chartered Accountants
and Consultants
www.bdo.ca

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Winnipeg Manitoba Canada R3C 4L5
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Auditors' Report

To the Shareholder of
Manitoba Development Corporation

We have audited the balance sheet of **Manitoba Development Corporation** as at March 31, 2003 and the statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The comparative figures for the year ended March 31, 2002 were reported on by other auditors.

BDO Dunwoody LLP

Chartered Accountants

Winnipeg, Manitoba
June 3, 2003

Manitoba

Manitoba Development Corporation
555-155 Carlton Street
Phone: 204-945-0141
Fax: 204-945-1193

Winnipeg Manitoba, CANADA
R3C 3H8

June 3, 2003

THE MANITOBA DEVELOPMENT CORPORATION
MANAGEMENT REPORT

The accompanying financial statements are the responsibility of management and have been prepared in conformity with the generally accepted accounting principles. The statements are examined byBDO Dunwoody LLP, Chartered Accountants, whose opinion is included herein.

To fulfil this responsibility, management maintains internal control systems to provide reasonable assurance that the accounts and records accurately reflect all transactions and that appropriate policies and procedures are established and respected.

BDO Dunwoody LLP have free access to the Board of Directors, with and without management present, to discuss the results of their audit and the quality of financial reporting to the Board.

James R. Kilgour, C.A.
General Manager

Jack Dalgliesh
Secretary-Treasurer

Manitoba Development Corporation
Balance Sheet

March 31	2003	2002
Assets		
Current Assets		
Cash	$ 377,693	$ 409,519
Term deposits - Province of Manitoba	3,155,959	3,073,166
Accounts receivable - other	58,521	2,599
	3,592,173	3,485,284
Assets managed for the Province of Manitoba under Part II		
Cash on hand held in trust	631,683	1,077,087
Loans receivable (Note 2)	64,692,218	59,798,379
Equity investments (Note 3)	4,946,202	5,378,135
	70,270,103	66,253,601
	$ 73,862,276	$ 69,738,885
Liabilities and Shareholder's Equity		
Current Liabilities		
Accounts payable - Part I	$ 258,557	$ 227,554
Funds Provided by the Province of Manitoba under Part II	70,270,103	66,253,601
	70,528,660	66,481,155
Commitments (Note 4)		
Shareholder's Equity		
Share capital - authorized and issued 100 shares at $10 per share	1,000	1,000
Retained earnings	3,332,616	3,256,730
	3,333,616	3,257,730
	$ 73,862,276	$ 69,738,885

Approved on behalf of the Board:

Director

Director

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Manitoba Development Corporation
Statement of Operations and Retained Earnings

For the year ended March 31	2003	2002
Income from part I		
Interest	$ 125,447	$ 149,075
Expenses under Part I		
Administration	49,561	55,269
Pension benefit costs	-	15,147
	49,561	70,416
	75,886	78,659
Income from Part II		
Interest - loans receivable	3,668,883	2,099,043
Pro-rata share of partnership earnings	270,426	2,543,043
Recovery of Part II expenses from the Province of Manitoba		
Gain on investment disposition	161,986	-
Decrease in allowance for forgiveness	3,521,436	1,688,111
Decrease in provision in doubtful accounts	6,616,161	131,264
Decrease in provision for decline in value of investments	384,408	1,465,006
	14,623,300	7,926,467
Expenses under Part II		
Gain on investment disposition	161,986	-
Increase in allowance for loan forgiveness	3,521,436	1,688,111
Increase in allowance for doubtful accounts	6,616,161	131,264
Increase in provision for decline in value of investments	384,408	1,465,006
Repayment of Part II interest on loans receivable to the Province of Manitoba	3,668,883	2,099,043
Provision for repayment of pro-rata share of partnership earnings	270,426	2,543,043
	14,623,300	7,926,467
	-	-
Net income for the year	75,886	78,659
Retained earnings, beginning of year	3,256,730	3,178,071
Retained earnings, end of year	$ 3,332,616	$ 3,256,730

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Manitoba Development Corporation
Statement of Cash Flows

For the year ended March 31	2003	2002
Provided by (used in) Part I Activities		
Cash Flows from Operating Activities		
Net income for the year	$ 75,886	$ 78,659
Changes in non-cash working capital balances		
Accounts receivable - other	(55,922)	65,079
Accounts payable	31,003	27,860
Accrued pension liabilities	-	(538,995)
Net cash flow from Part I activities	50,967	(367,397)
Provided by (used in) Part II Activities		
Cash Flows from Investing Activities		
Loans Receivable		
Principal repayments	15,588,409	11,841,060
Loans issued	(26,594,019)	(27,090,993)
Increase in accrued interest receivable	(39,548)	(641,168)
	(11,045,158)	(15,891,101)
Equity Investments		
Investments made	(1,482,723)	(3,647,011)
Redemptions	768,413	32,913
Gain on disposition	(161,986)	-
	(876,296)	(3,614,098)
	(11,921,454)	(19,505,199)
Increase (decrease) in cash on hand held in trust	445,404	(760,387)
Funds provided by the Province of Manitoba	11,476,050	20,265,586
Net cash flow from Part II activities	-	-
Net increase (decrease) in Cash and cash equivalents	50,967	(367,397)
Cash and cash equivalents, beginning of year	3,482,685	3,850,082
Cash and cash equivalents, end of year	$ 3,533,652	$ 3,482,685
Represented by		
Cash on hand	$ 377,693	$ 409,519
Term deposits - Province of Manitoba	3,155,959	3,073,166
	$ 3,533,652	$ 3,482,685

The accompanying summary of significant accounting policies and notes are an integral part of these financial statements.

Manitoba Development Corporation
Summary of Significant Accounting Policies

March 31, 2003

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results may differ from those estimates. The significant accounting policies used in these financial statements are as follows:

Loans Receivable Under Part II

Loans are carried at the unpaid principal plus accrued interest, less allowance for doubtful loans. Loans considered uncollectible are written off.

Interest on loans is recorded as income on an accrual basis except for loans considered impaired. When a loan becomes impaired, recognition of interest ceases when the carrying amount of the loan (including accrued interest) exceeds the estimated realizable amount. The amount of initial impairment and any subsequent changes are recorded through the provision for doubtful loans as an adjustment of the specific allowance.

The allowance for doubtful loans is maintained at a level considered adequate to absorb credit losses existing in the portfolio. Specific allowances reduce the carrying value of loans identified as impaired to their net realizable amounts. In addition to specific allowances against identified impaired loans, the Corporation maintains a non-specific allowance to cover impairment which is inherent in the loan portfolio which is consistent with industry practice.

Equity Investments Under Part II

The Corporation's equity in investments related to share capital investments are recorded at cost. The Corporation's investments in the Vision Capital Fund, the Manitoba Capital Fund, the Manitoba Science and Technology Fund, the Renaissance Capital Fund and the Western Life Sciences Venture Fund LLP are accounted for using the equity method of accounting. These investments were originally recorded at cost and the carrying value is adjusted thereafter to include the Corporation's pro rata share of post acquisition earnings for these investments. Such adjustments are correspondingly reflected in the balance sheet caption "Funds provided by the Province of Manitoba under Part II."

Operating Losses

Losses under Part I and under Part II of the Corporation are the responsibility of the Province and are charged directly against advances received from the Province.

Cash

For the purpose of the statement of cash flows, cash includes cash and term deposits with the Province of Manitoba with maturities of up to three months.

March 31, 2003

1. **Nature of Operations and Economic Dependence**

The Manitoba Development Corporation (The Corporation) provides loans and guarantees under Part I and Part II of the Development Corporation Act. The activities under Part I and Part II are accounted for separately. Part I activities are undertaken at the initiative of the Corporation, while Part II activities are at the direction of the Province of Manitoba.

The Corporation's lending operations under Part I were suspended effective November 15, 1977 except at the direction of the Province of Manitoba. The Corporation's lending and investment operations under Part II continue under the direction of the Province of Manitoba. The Province provides all financing for these initiatives and ultimately bears all costs, including any exposure for these financial assets to interest rate fluctuations, changes to their fair value or credit risk relating to the realization of these assets.

2. **Loans receivable managed for the Province of Manitoba under Part II**

	2003	2002
Business support		
Manitoba Industrial Opportunities Program		
- Repayable	$ 72,015,565	$ 49,549,829
- Forgivable	9,012,647	12,088,747
Manufacturing Adaptation Program	4,660	11,524
Canada - Manitoba Economic Development Partnership	461,542	221,680
	81,494,414	61,871,780
Other loans receivable		
Canada/Manitoba Tourism Agreement - Forgivable	-	75,000
Vision capital Fund	10,965,876	29,017,659
Crocus Foods (1996) Limited	-	370,337
Manitoba Film and Sound	193,595	293,106
Related to sale of Linnet Geomatics International Inc.	-	247,863
Elmwood Cemetery	75,000	75,000
International Education Incentive Loan	22,400	-
	11,256,871	30,078,965
	92,751,285	91,950,745
Less: Allowance for forgiveness	9,012,647	12,163,747
Allowance for doubtful accounts	19,046,420	19,988,619
	28,059,067	32,152,366
	$ 64,692,218	$ 59,798,379

2. Loans receivable managed for the Province of Manitoba under Part II (Continued)

The Manitoba Industrial Opportunities Program provides flexible repayable financing to encourage companies to expand or locate in Manitoba. The loans have maturities as follows:

	2003	2002
Less then one year	$ 2,709,863	$ 426,756
1 - 2 years	4,008,669	4,075,000
2 - 5 years	23,472,364	20,929,411
Greater then 5 years	41,824,669	24,118,662
	72,015,565	49,549,829
Allowance	(8,075,890)	(5,751,475)
	$ 63,939,675	$ 43,798,354

Interest rates charged for Manitoba Industrial Opportunities loans are tied in each case to the Corporation's cost of borrowing from the Province of Manitoba. This is referred to as the crown rate. The crown rate is an approximation of the Province's cost of borrowing and is adjusted on a regular basis throughout the year depending upon the Province's fluctuating costs of borrowing as reflected by market conditions. The interest rate charged on a Manitoba Industrial Opportunities loan is tied to the crown rate at the time of the first disbursement of the loan proceeds to the debtor and does not vary based on any subsequent changes to the crown rate. In certain cases, the Corporation charges interest rates which are less than crown rate to encourage investment and job creation in Manitoba. In other cases, the Corporation charges rates in excess of the crown rate to reflect risk conditions. Interest rates charged on loans are as follows:

	2003	2002
Crown rate plus up to 3%	$ 26,056,690	$ 21,936,329
Crown rate	23,501,292	13,020,987
Crown rate less, 0 - 1%	7,950,000	442,665
Crown rate less 1 - 2%	9,267,387	9,564,891
Crown rate less 3 - 6%	3,921,275	2,069,341
Crown rate less, greater than 6%	1,318,921	2,515,617
	72,015,565	49,549,830
Allowance	(8,075,890)	(5,751,476)
	$ 63,939,675	$ 43,798,354

Current interest rates range from nil to 8.625%.

When possible, the Corporation obtains various forms of security on the Manitoba Industrial Opportunities loans with priority ranking subject to any prior existing charges.

Loan financing to the Vision Capital Fund assisted the Fund to make equity investments in Manitoba-based small and medium sized businesses. Per the terms of the agreement, the Vision loan no longer bears interest. As the Fund liquidates their remaining investments, any proceeds which the Corporation receives, per the terms of the agreement, will be applied to the loan balance.

The Corporation also manages a number of other loans/loan programs on behalf of the Province of Manitoba.

3. Equity investments managed for the Province of Manitoba under Part II

	2003	2002
Share capital investments		
Common shares of Crocus Foods (1996) Limited	$ -	$ 75
Class C preferred shares of C.A.R.E. Corp.	39,570	267,370
Faneul ISG Inc.	1	1
	39,571	267,446
Less: Allowance for forgiveness of shares	39,571	267,446
	-	-
Limited Partnership Investments		
Vision Capital Fund	-	768,413
Manitoba Capital Fund	4,363,200	4,363,200
Manitoba Science and Technology Fund	1,375,429	1,242,706
Renaissance Capital Fund	3,000,000	2,500,000
Western Life Sciences Venture Fund LLP	1,350,000	500,000
	10,088,629	9,374,319
Less: Provision for decline in value of investments	6,908,813	6,032,996
Pro-rata share of partnership earnings	(1,766,386)	(2,036,812)
	5,142,427	3,996,184
	$ 4,946,202	$ 5,378,135

The corporation holds 39,570 (2002 - 267,370) Class C non-voting preferred shares of C.A.R.E. Corp. The preferred shares are cancellable on an annual basis at the rate of $10,000 for every job held at C.A.R.E. Corp., commencing February 1999. During the year, the Corporation cancelled 227,800 of these shares (2002 - 209,800). Consistent with the treatment of other similar share capital investments managed for the Province of Manitoba under Part II, an allowance for forgiveness of shares has been taken to fully provide for the amount of the investment at the time of acquisition.

3. **Equity investments managed for the Province of Manitoba under Part II (Continued)**

On January 17, 2002, Faneuil ISG Inc. was purchased by 3863620 Canada Limited. As a result of this transaction, the Province agreed to convert its existing investment into 11,000,000 preference shares of 3863620 Canada Limited, with scheduled redemption dates as follows:

Year 1	$ Nil
Year 2	Nil
Year 3	Nil
Year 4	Nil
Year 5	2,000,000
Year 6	2,000,000
Year 7	6,400,000*
	*(net of $600,000 in legal fees)

The investment in preference shares has been recorded in the books of the Corporation at a nominal value of $1. Any funds received upon redemption of the preference shares will accordingly result in the recognition of an equal amount of income at that time.

4. **Contingent liability and commitments**

Commitments and undisbursed balances of approved loans under Part II:

	2003	2002
Manitoba Industrial Opportunities Program	**$ 36,781,073**	$ 29,819,900
Canada - Manitoba Economic Development Partnership	**38,458**	278,320
Manitoba Science & Technology Fund	**1,124,570**	1,251,294
Renaissance Fund	**-**	500,000
Vision Capital Fund	**-**	181,014
Manitoba Capital Fund	**636,800**	636,800
Western Life Sciences Venture Fund LLP	**3,650,000**	4,500,000
	$ 42,230,901	$ 37,167,328

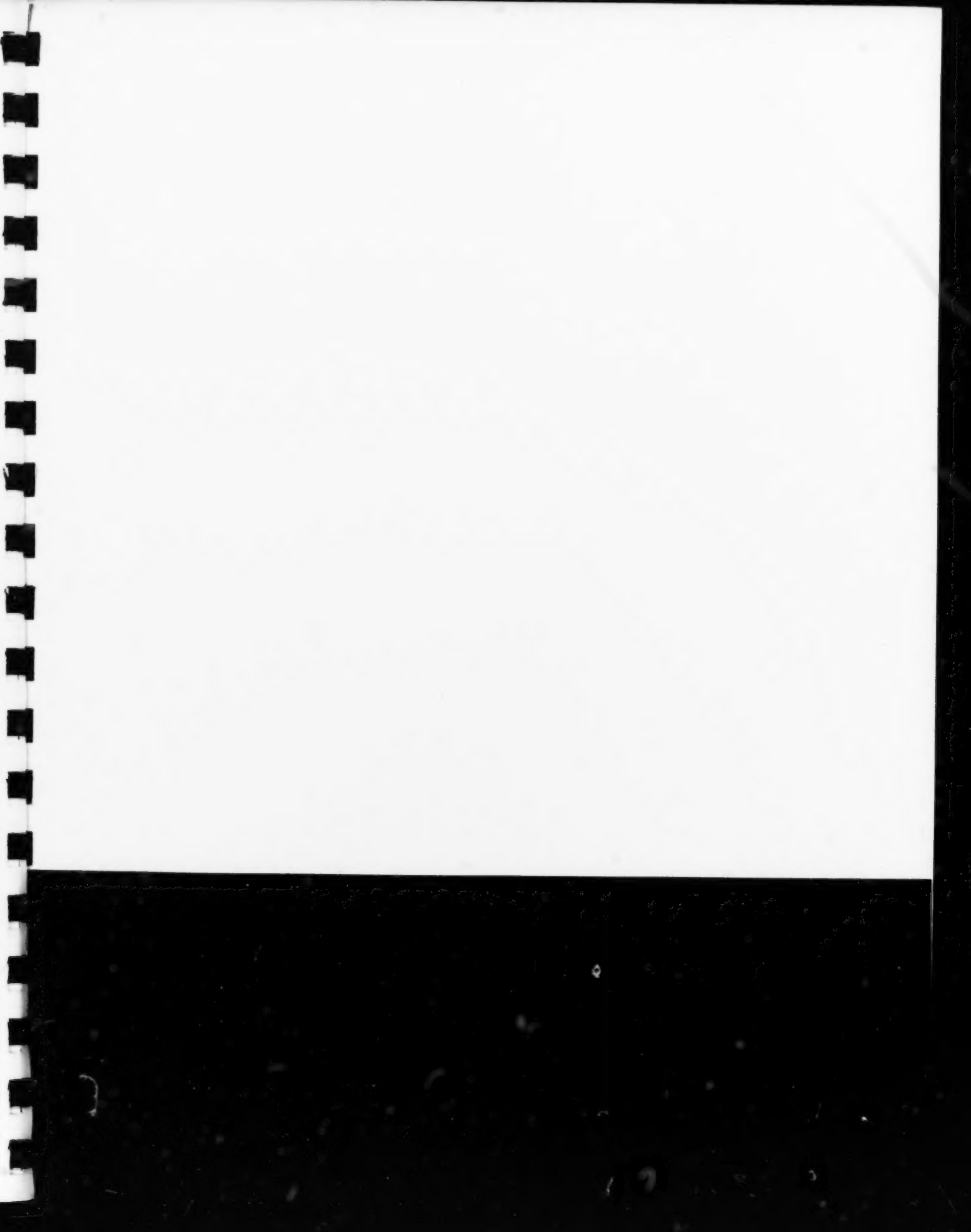
5. Financial Instruments

The carrying amounts of Part I financial assets and liabilities are a reasonable estimate of the fair value because of the short maturity of those instruments. The carrying amount of Part II financial assets and liabilities approximate their fair value. In the absence of readily ascertainable market values, management has estimated that fair value would not differ materially from carrying value. Factors considered in this determination include underlying collateral, market conditions, financial data and projections of the borrowers. Because of the inherent uncertainty of valuation, the estimate of fair value may differ significantly from the values that would have been used had a ready market for the assets existed.

The financial risk is the risk to the Corporation's Part I earnings that arise from fluctuations in interest rates and degree of volatility of these rates.

All financial instruments are denominated in Canadian dollars.

The Corporation does not participate in derivative financial instrument trading.



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